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031621Z Mar 04

UNCLAS SECTION 01 OF 02 QUEBEC 000041

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SUBJECT: JANSSEN-ORTHO PROMOTES MANAGED PRICE INCREASES FOR QUEBEC PHARMACEUTICALS

REF: QUEBEC 0012

¶1. (SBU) Summary: Consulate met with Janssen-Ortho representatives February 25 to discuss their plan to get the Quebec Government to adopt a modified American-style pricing system that would manage price increase pressures in the pharmaceutical sector. After a meeting with the Quebec Ministry of Health, they reported back that the GC was pleased with a fresh approach to the problem that could address their needs. A final response will probably not be forthcoming until early October. Since the proposal would require regulatory change, and with balkiness on the part of the public over a perceived double standard in drug pricing, it is unlikely the Quebec Government will take the bait, no matter how advantageous. End Summary.

¶2. (U) CG Keogh and Pol Asst Nadeau met February 25 with Janssen-Ortho Inc, the Toronto-based pharmaceutical subsidiary of Johnson & Johnson. Dr Penny Albright, Vice President for Government and Health Economics, Robert Kamino, Senior Director Strategic Business Licensing and Acquisitions, and France Mignault, Regional Director of Health Policy and Governmental Affairs had requested the meeting to outline a proposal on managing price increase pressures in the pharmaceutical sector that they were about to propose to the Government of Quebec. Janssen-Ortho is the fourth largest pharmaceutical company in Canada in terms of sales (Pfizer is first). Quebec represents about 12% of total drug sales in Canada.

¶3. (SBU) Quebec has historically been more responsive to the pharmaceutical industry than any of the other Canadian provinces. In Janssen-O's view, the Parti Quebecois had been good for the industry, but the current Liberal government is seen to be pragmatic and pro-US, with strong interest in attracting U.S. investment. According to Janssen-O, Quebec is the key to resolving the disparity in the price of prescription medicines between the U.S. and Canada that has encouraged cross border Internet sales, because its legislation has stricter pricing rules. In short, if Quebec is on board, the other provinces are likely to follow, they reasoned.

¶4. (U) In Quebec, there are more than 10,000 people employed in the pharmaceutical industry. The market was \$3.2 billion in 2002. Brand name pharmaceutical research and development in Quebec has increased by nearly 500% since 1988 to \$423.2 million in 2001. The Quebec government paid over \$1.9 billion for prescription medicines through the Regie de l'Assurance Maladie du Quebec (RAMQ) in 2003, up 9% over 2002. This makes Quebec's public drug plan one of the two largest and most influential in Canada, but the government is hard pressed to continue with this outlay. The GQ has strongly discouraged drug price increases. There have been none since the early 1990's.

¶5. (SBU) This policy has caused friction between the Conseil du Medicament and the manufacturers. In addition, the cancellation of the formulary update (the normal deadline for price changes would be March 5) is of particular concern to the industry. Quebec has decided to delay the formulary until June. The Janssen-O representatives said the postponement of the decision to add new drugs to the provincial list is preventing access to new and better drugs. As the pressure on the system increases, RAMQ is faced with several options: losing access to pharmaceuticals if they continue to reject price increases; delisting products with increased prices; or accepting price increases of 2-3 percent when the provincial health budget is already under extreme strain.

¶6. (SBU) An alternative, proposed by Janssen-Ortho, is negotiated prices that would allow increases in some cases (private insurers) while reducing the price for RAMQ. In addition, the RAMQ could negotiate the price of a newly introduced product before listing it on the formulary to achieve an initial price that is lower than other customers. There are no legislative or legal impediments to implement this sort of arrangement in Quebec.

17. (SBU) According to Janssen-O, discussions with the RAMQ have been underway for 3 years. At the start, the answer was a flat out "no." Quebec drug plan representatives defended all Quebecers against price increases and treated the proposal as a threat to the "Quebec Model" of social justice, to avoid any perception that the government might be in cohorts with the pharmaceuticals industry. The government mood remains sensitive and careful but there is a recognition that the system is not working, said the Janssen-O reps. Finance Minister Yves Seguin has already said he will have difficulty balancing the budget, in part because of lower federal transfer payments for healthcare.

18. (SBU) Compounding the PLQ government's problem, 1.5 million Quebecers are over 65 years of age. 1 million are on some sort of social assistance; 1.7 million are under the Quebec government drug plan; and 4 million are covered by private drug insurance. At present, there are approximately 2,000 products listed on the Quebec formulary, many of which are generics. Because of the province's social justice component, it lists certain products not covered by other provinces, i.e. anti-smoking patches. Quebec lists more drugs, and does it faster, than other Canadian province. However, this represents only 60 percent of the total drugs approved by Ottawa.

19. (SBU) The Janssen-O representatives see the new pricing scheme as a win-win situation for the industry and the Quebec government. A segment of society would pay more, i.e. privately insured customers would be hit by a 4% increase, but the elderly would greatly benefit from this scheme. This would help Quebec manage the pharmaceutical budget and deal with the current confrontation with the industry.

10. (SBU) Following their February 25 meeting with Assistant Deputy Minister of Health Jocelyne Daganais and staff members, Janssen reported back that the GQ was pleased with a fresh approach to the problem of drug pricing that addressed the government's needs as well as the interests of the industry. The government is studying options and would be taking several months to assess the situation, probably working to an October deadline (the dates when they would normally implement changes to the drug plan are June 1 and October 1). They mentioned that the major issues to resolve with Janssen-Ortho's proposal were the need for regulatory change to enable implementation and the need for assessing how the various stakeholders would perceive this arrangement.

11. (SBU) Comment: The Quebec Government is in a real bind over balancing the budget and grappling with increased health costs and diminished "equalization" payments from Ottawa. Increased medical costs are real issues because of the rise in the dollar, internet pharmacies, and higher expectations on the part of Quebecers who voted the PLQ into office on a health platform. The government has tried to implement pragmatic policies early in its administration. However, Charest is not doing well in the polls. Ultimately, we think it is unlikely that the Quebec government will find going to a U.S. pricing system palatable, with the need to implement new regulations and the fear of criticism for "double standard" healthcare. End Comment

KEOGH